

# Economic & Revenue Outlook

Presented to  
House Finance Committee

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July 22, 2010  
Olympia, Washington



**WASHINGTON STATE**  
**ECONOMIC AND REVENUE FORECAST COUNCIL**



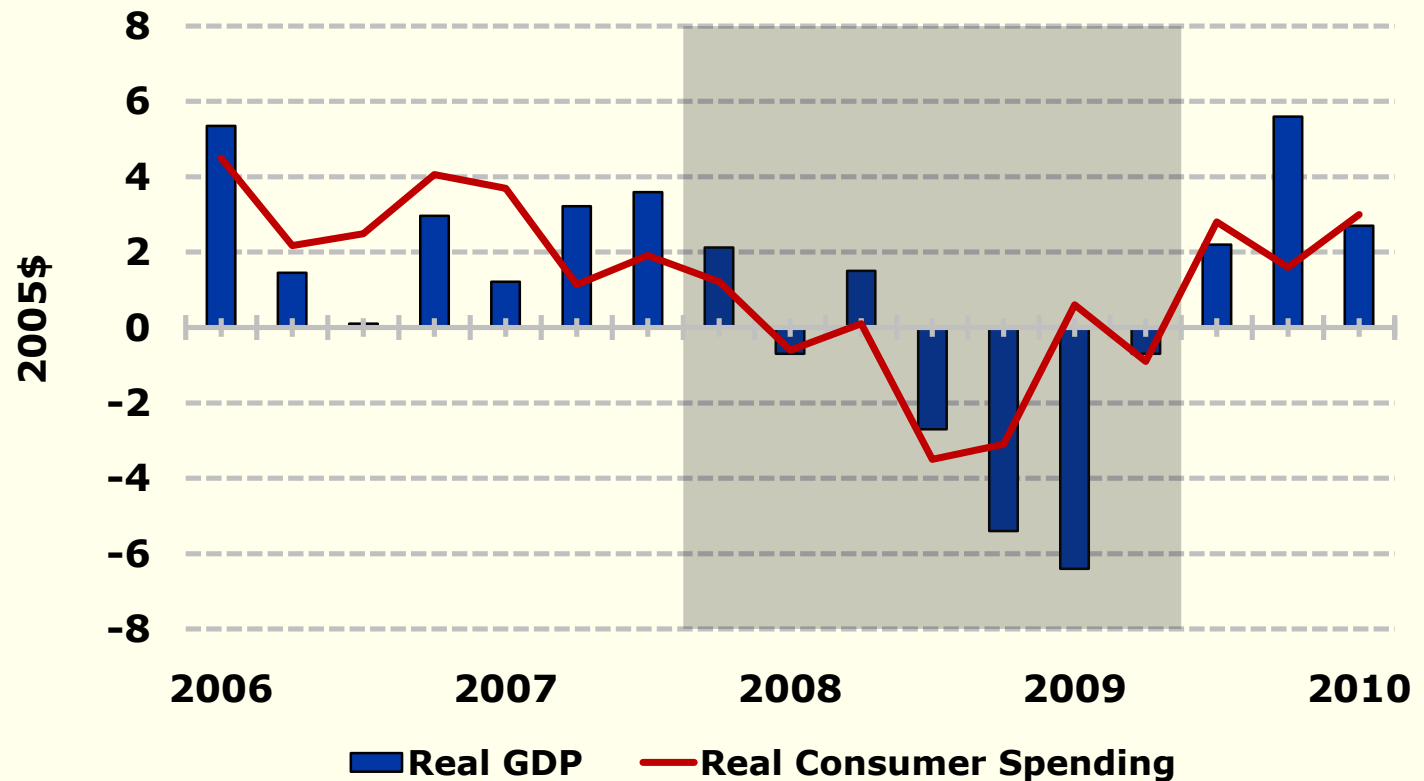
# Summary

- The June revenue forecast expected near-term weakness, and moved approximately \$200 million from this biennium to the next
- Activity appears to have weakened even more than anticipated, but the news is not as bad as the forecast variance suggests
- Downside risks to the forecast are higher now than a month ago
  - Europe
  - Construction
  - Confidence
  - Credit to small business
- The recovery will be a slow slog – but there are reasons for optimism in July



# We have had 3 consecutive quarters of GDP and consumer spending growth

Percent growth, SAAR



Source: BEA, data through 2010 Q1



# Forecast changes: General Fund State, 2009-2011 Biennium

**February  
Forecast:**

**\$28,725  
million**

**USD  
millions**

	<u>Collection Experience</u>	<b>June '10 Forecast</b>			
		<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	(\$34)	\$749	(\$159)	\$27,802	\$556
All other agencies	(\$5)	\$54	(\$47)	\$1,481	\$1
<b>Total GF-S</b>	<b>(\$39)</b>	<b>\$803</b>	<b>(\$207)</b>	<b>\$29,282</b>	<b>\$558</b>

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\* Detail may not add to total due to rounding



# Forecast changes: General Fund State, 2011-2013 Biennium

USD Millions

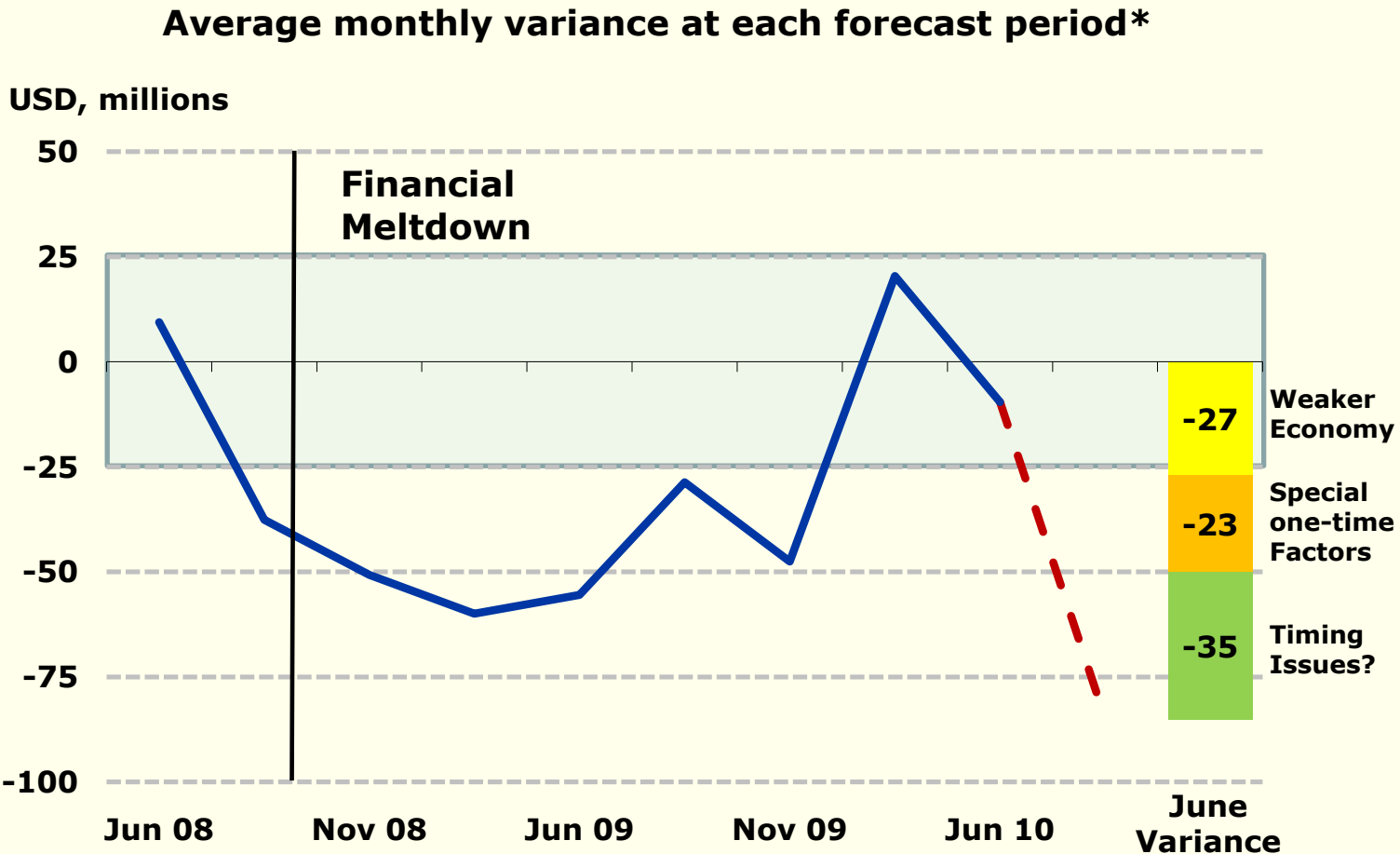
USD millions	June '10 Forecast				
	<u>February 2010 Forecast</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$30,658	\$1,556	\$219	\$32,433	\$1,774
All other agencies	\$1,566	\$105	(\$21)	\$1,650	\$84
<b>Total GF-S</b>	<b>\$32,225</b>	<b>\$1,661</b>	<b>\$197</b>	<b>\$34,083</b>	<b>\$1,858</b>

\* Detail may not add to total due to rounding



# The June revenue collection to forecast variance is very unusual

\*Adjusted for June 2009 variance in Property Taxes



Source: ERFC; data through June 10 – July 11 collection period

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# Inter-bank lending has tightened, but only marginally

The spread indicates the premium banks have to pay to borrow from each other

USD 3m LIBOR - 3m US T-bill Spread  
Basis Points

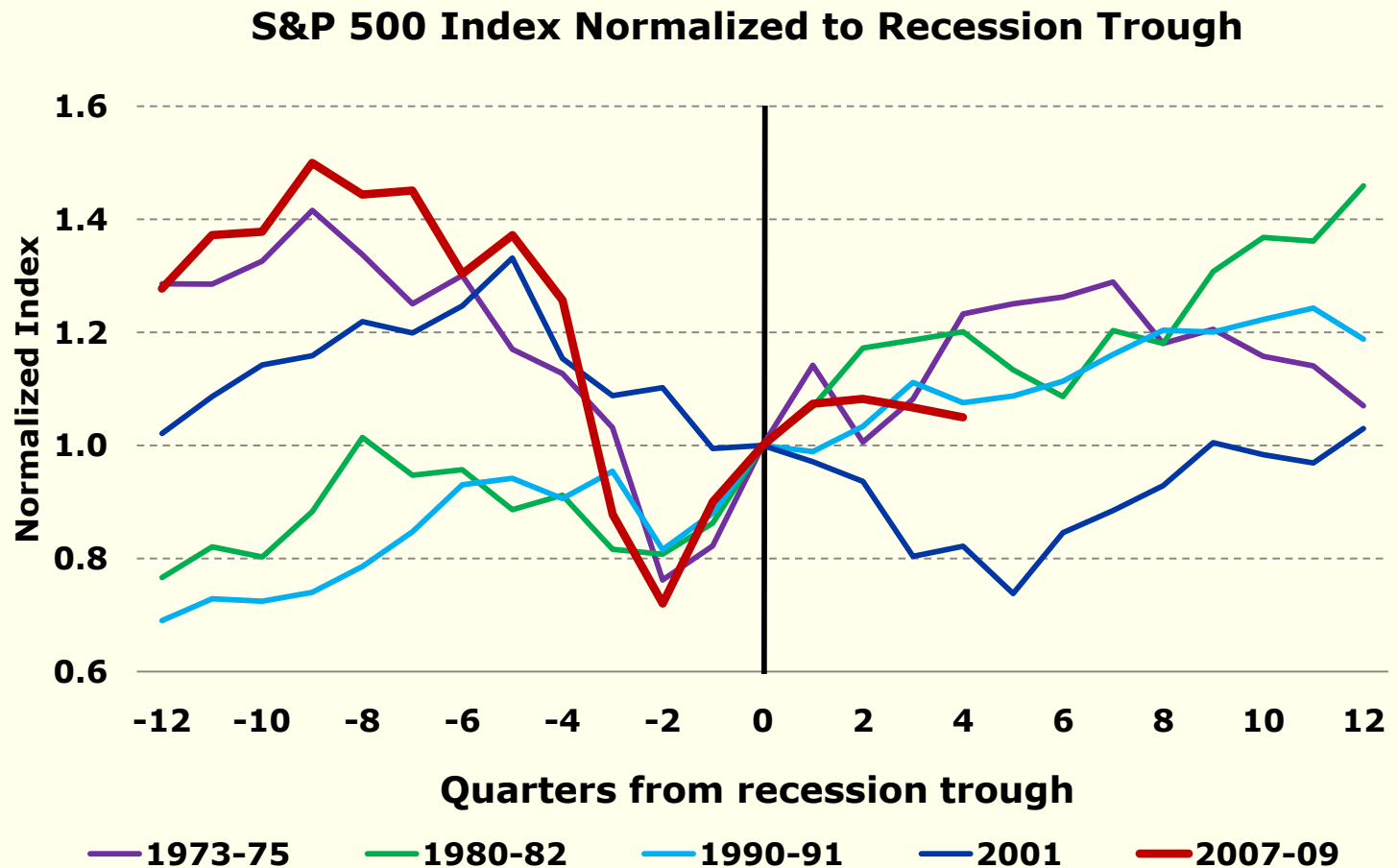


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Source: British Bankers Association, US Federal Reserve Bank, ERFC; data through July 19, 2010



# The recovery in equity markets has flattened out



Source: Yahoo Finance; ERFC; data through July 19 2010





# The S&P 500 VIX volatility index indicates financial markets are nervous

This index is a proxy for fear and uncertainty in markets

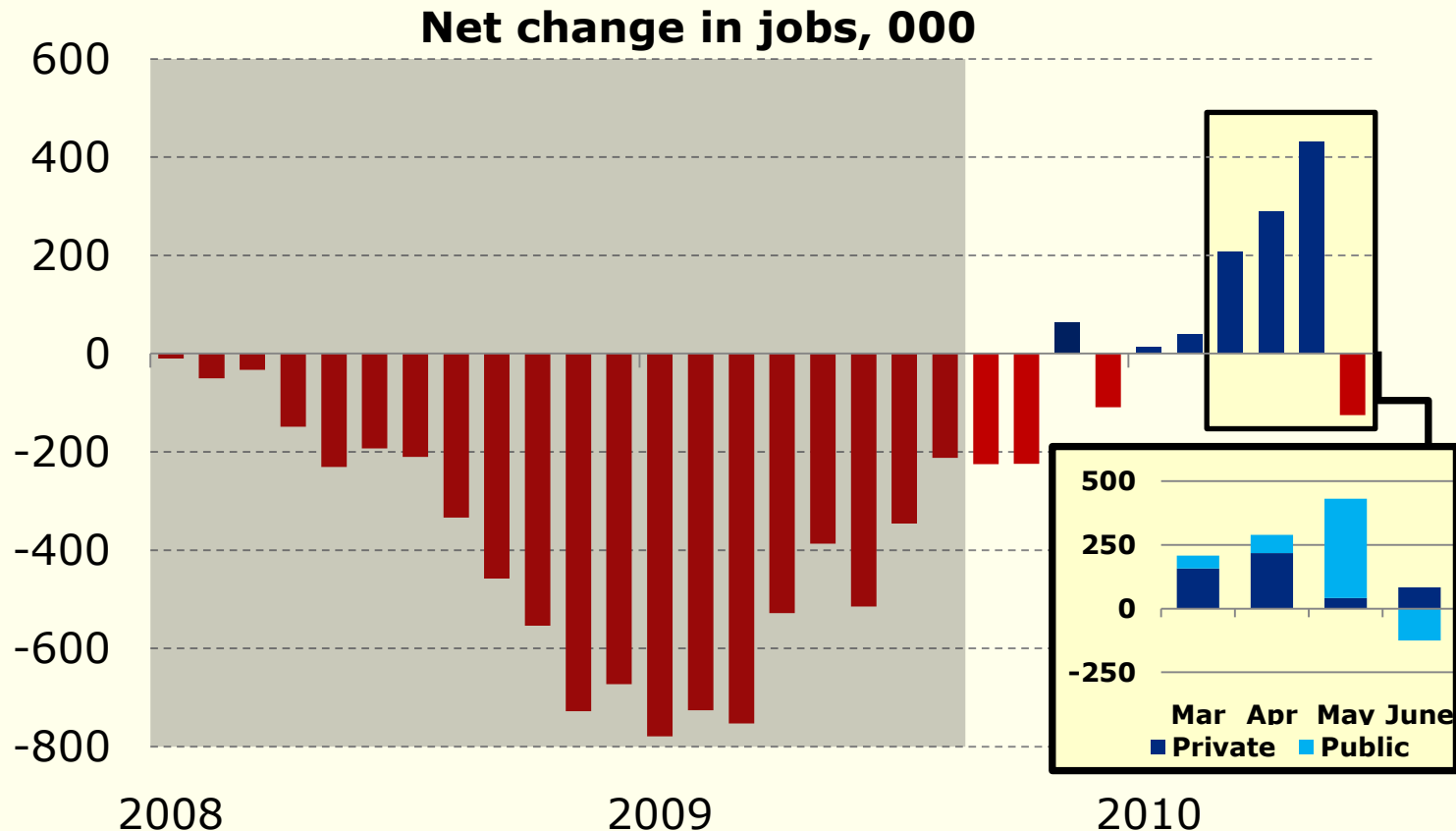


Source: Yahoo Finance; data through July 19, 2010



# The U.S. jobs recovery stalled in May, and remains weak in June

Only 33,000 private sector jobs were added in May, down from 218,000 in April



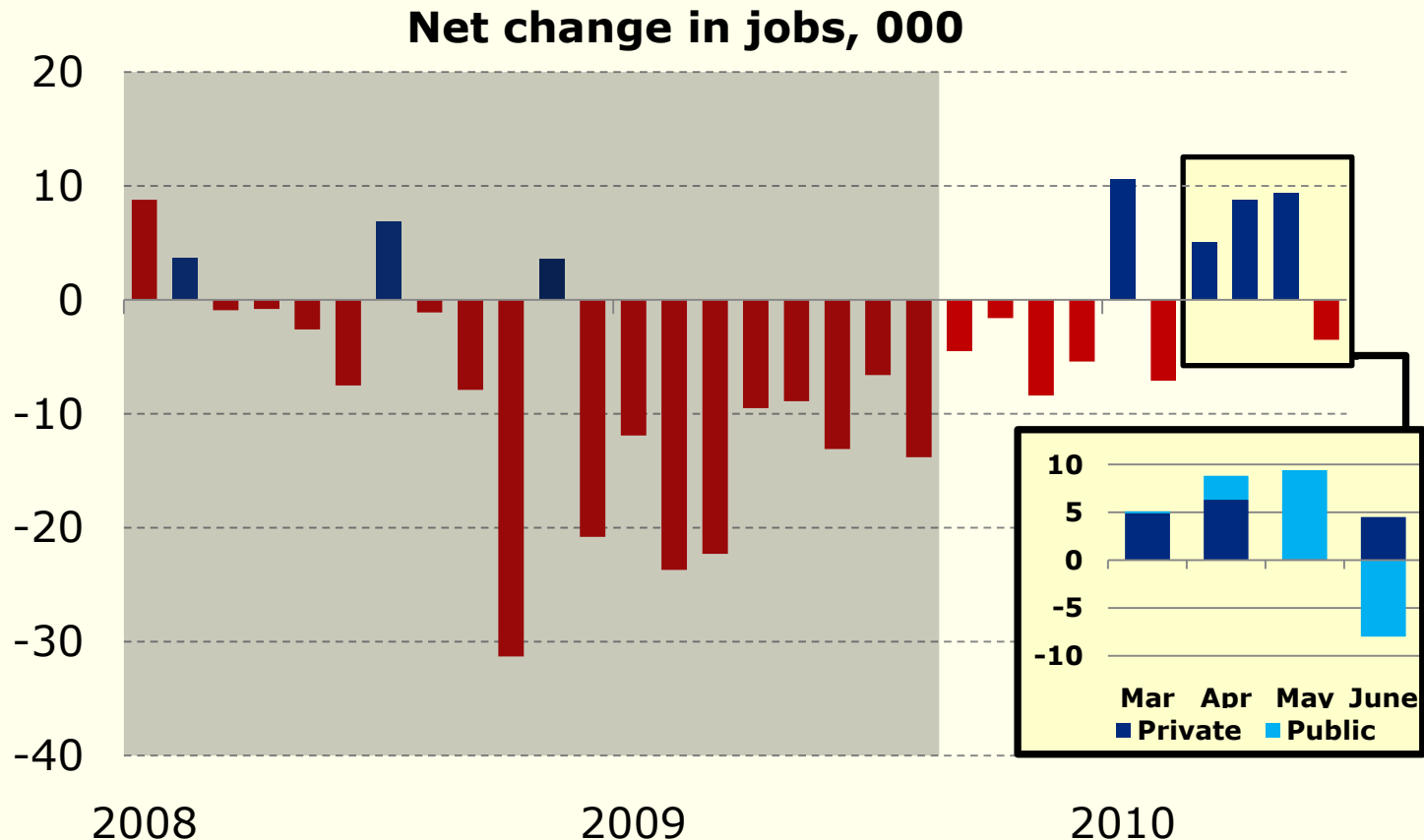
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Source: BLS; data through June 2010



# The WA jobs recovery shows the same pattern as the U.S. but was stronger in June

Only 100 private sector jobs were added in May, down from 6,300 in April



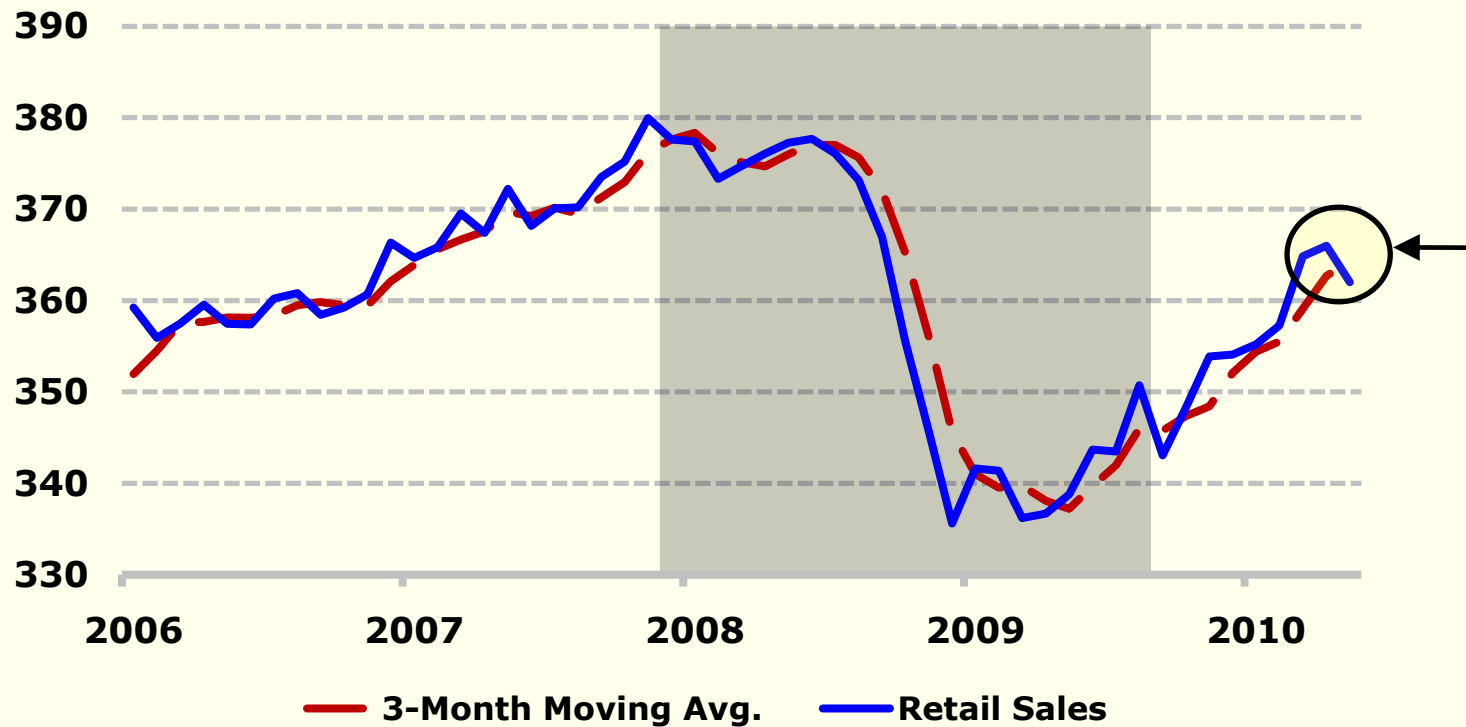
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Source: WA State Employment Security; data through June 2010



# The retail sales recovery is taking a break

**U.S. Retail Sales and Food Services**  
**USD, billions**



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Source: U.S. Census Bureau; data through June 2010

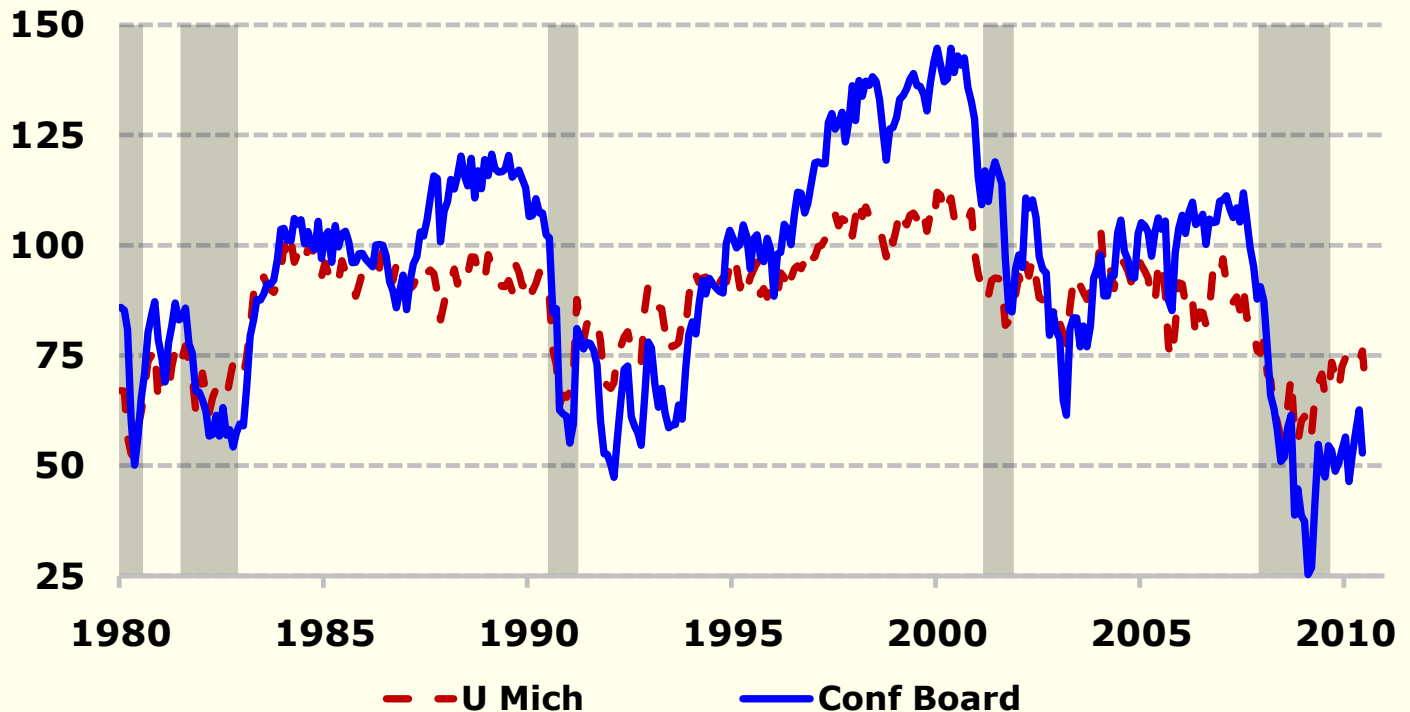


# Consumer confidence remains weak

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**

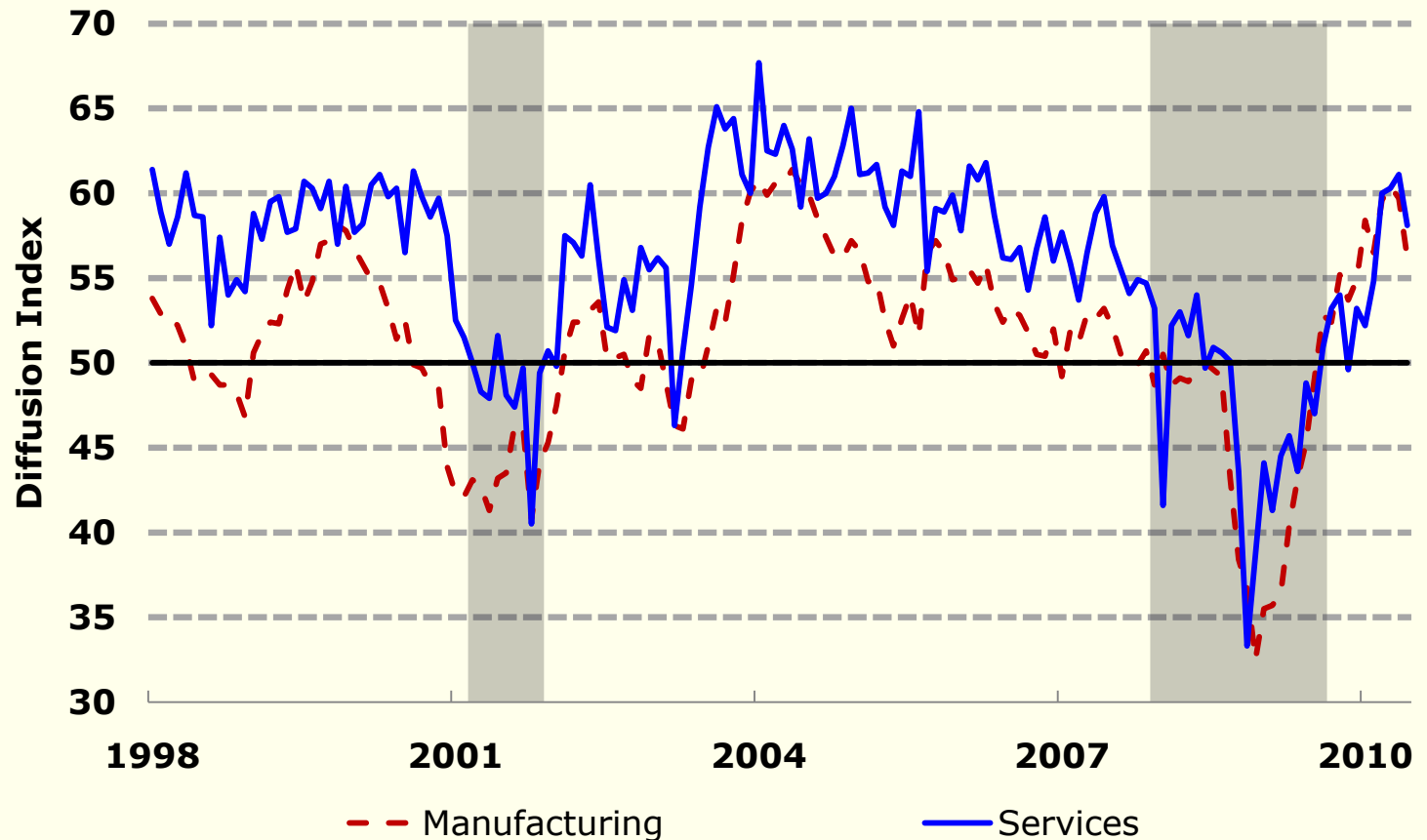


Source: University of Michigan; Conference Board, data through July 2010



# ISM indices for both services and manufacturing indicate slowing growth

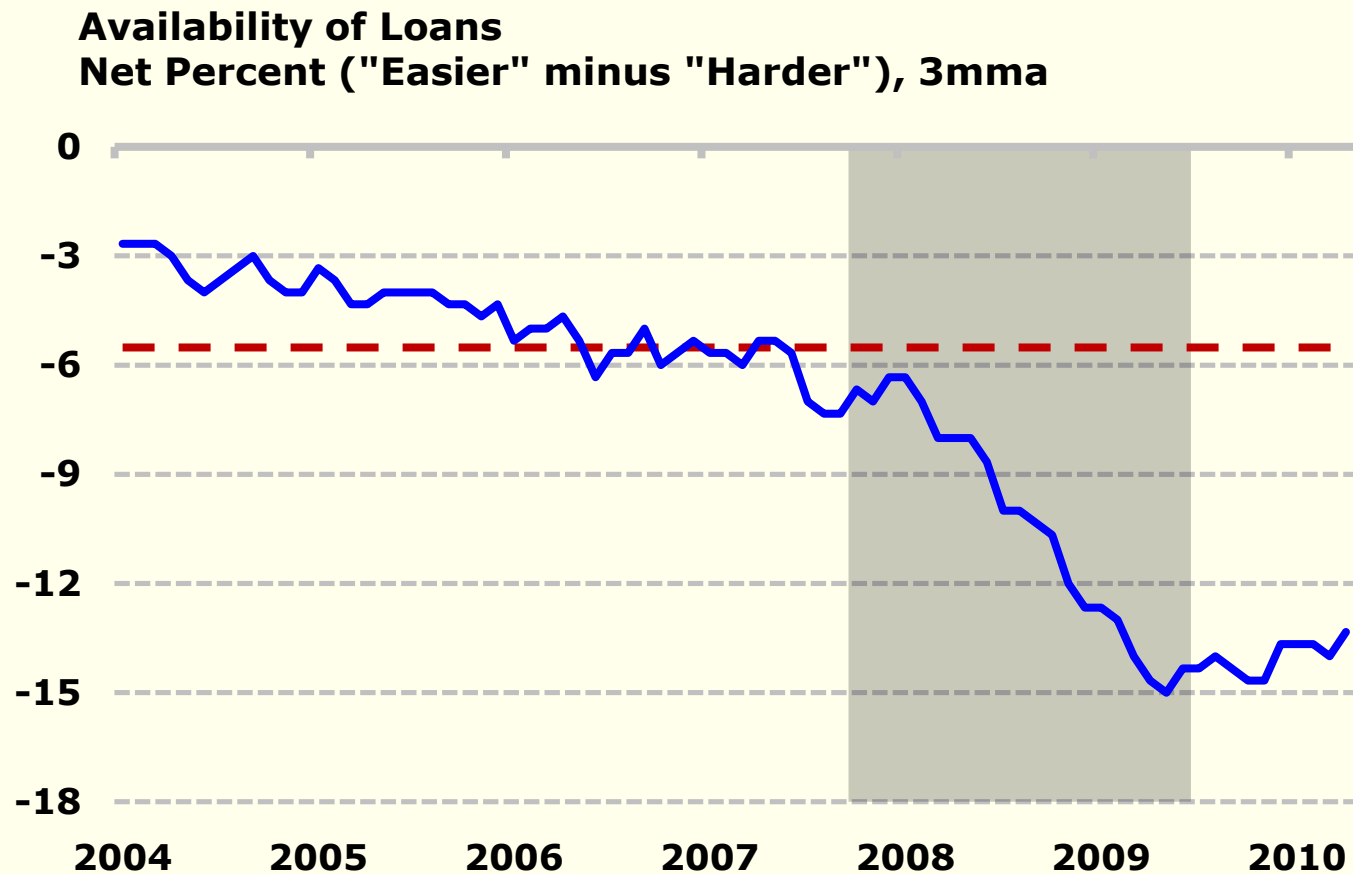
An index greater than 50, implies growth



Source: Institute of Supply Management; data through June 2010



# Credit conditions remain tight for small business



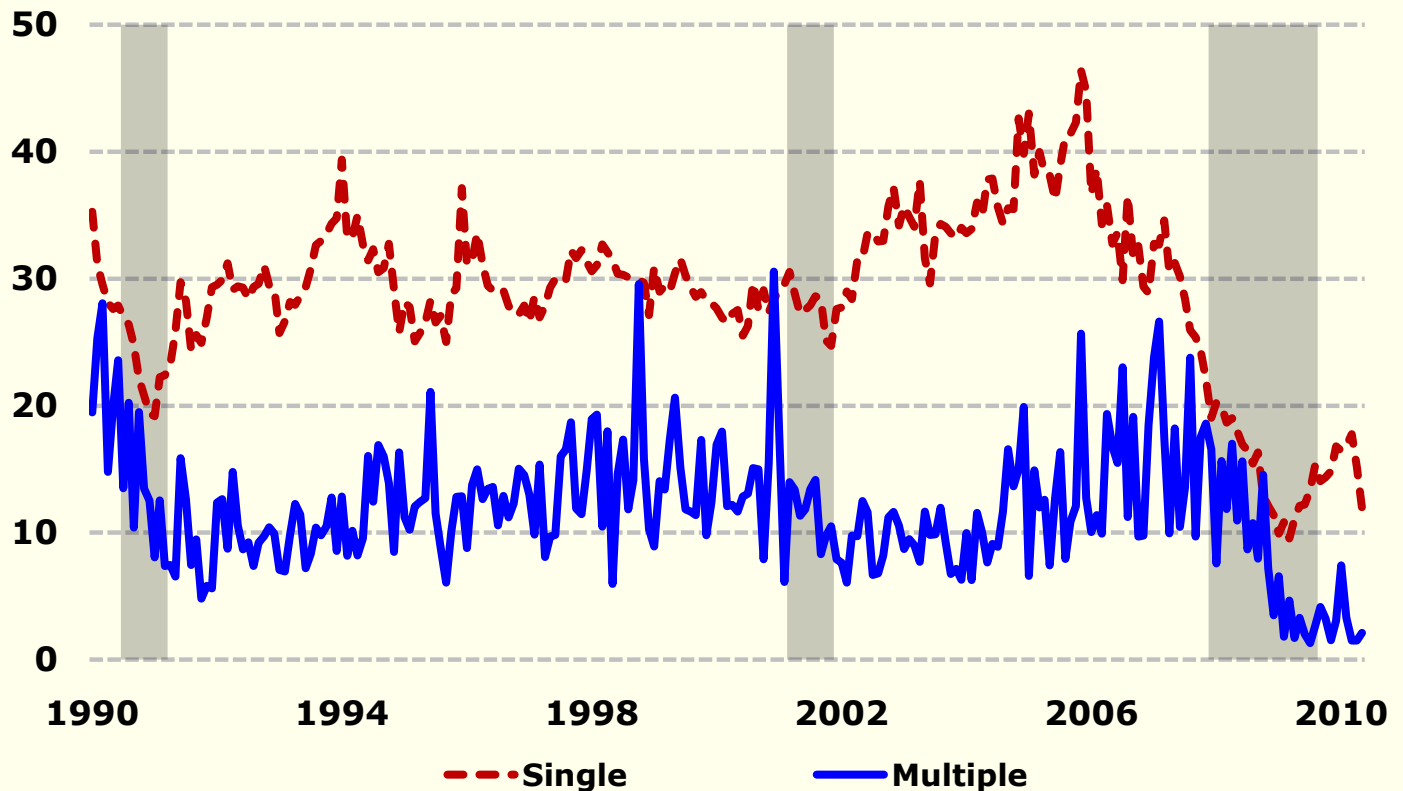
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Source: National Federation of Independent Business; data through June 2010



# WA single family housing has collapsed, now that the first time homebuyer tax credit has expired

Thousands, SA



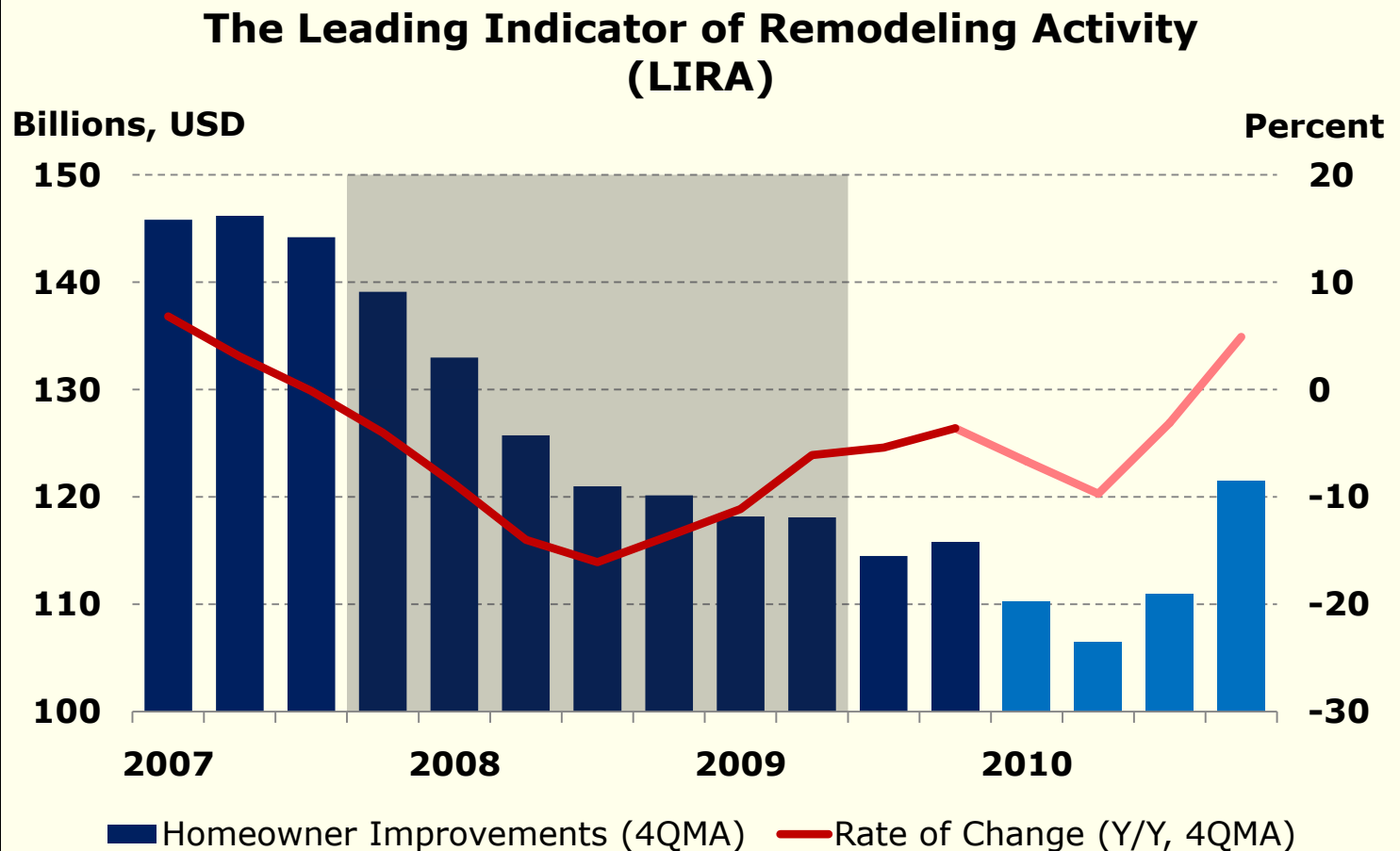
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Source: U.S. Census Bureau; data through May 2010





# Leading indicator suggests remodeling improvement in 2010

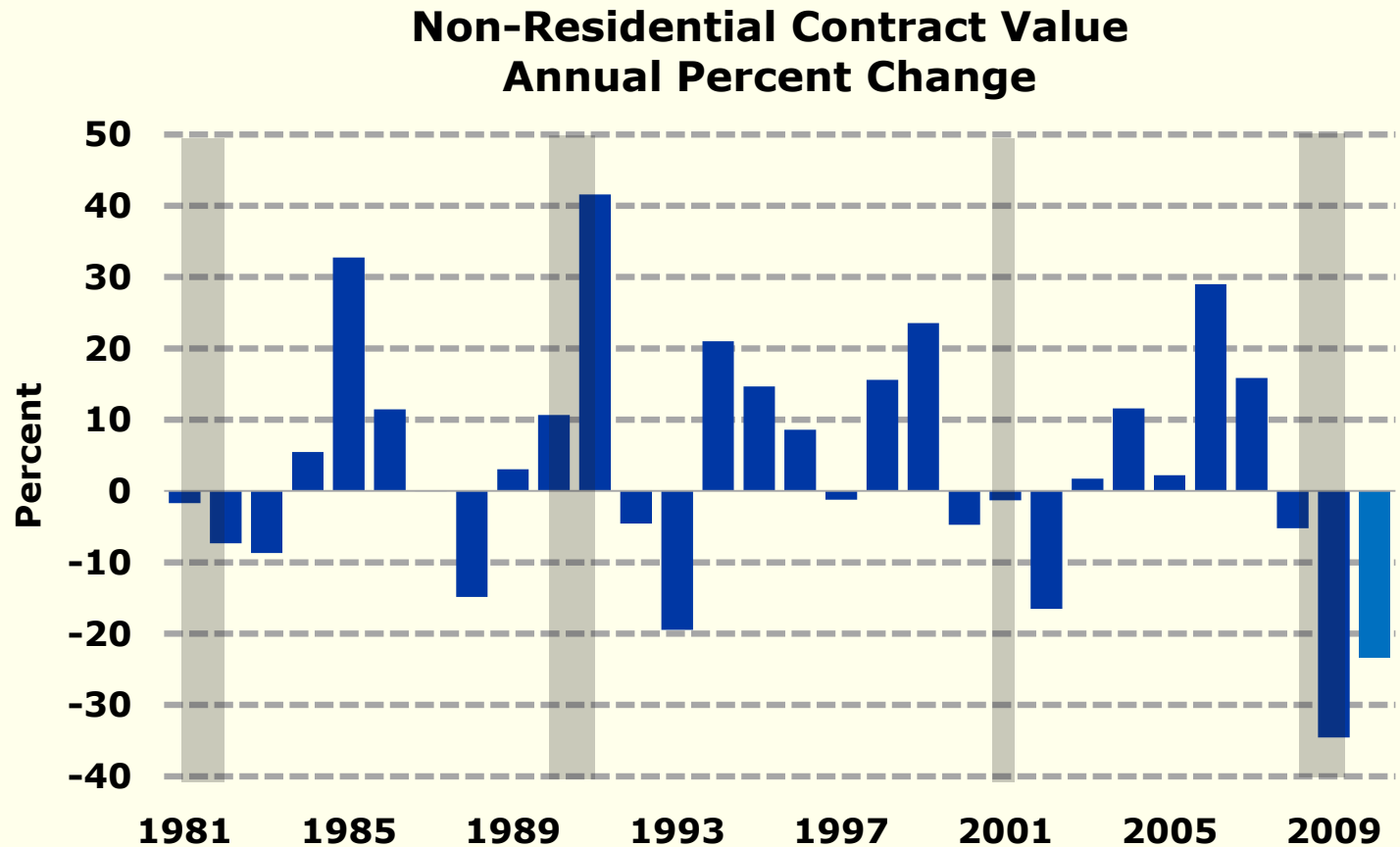


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Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4



# This is the worst downturn in non-residential construction in 30 years

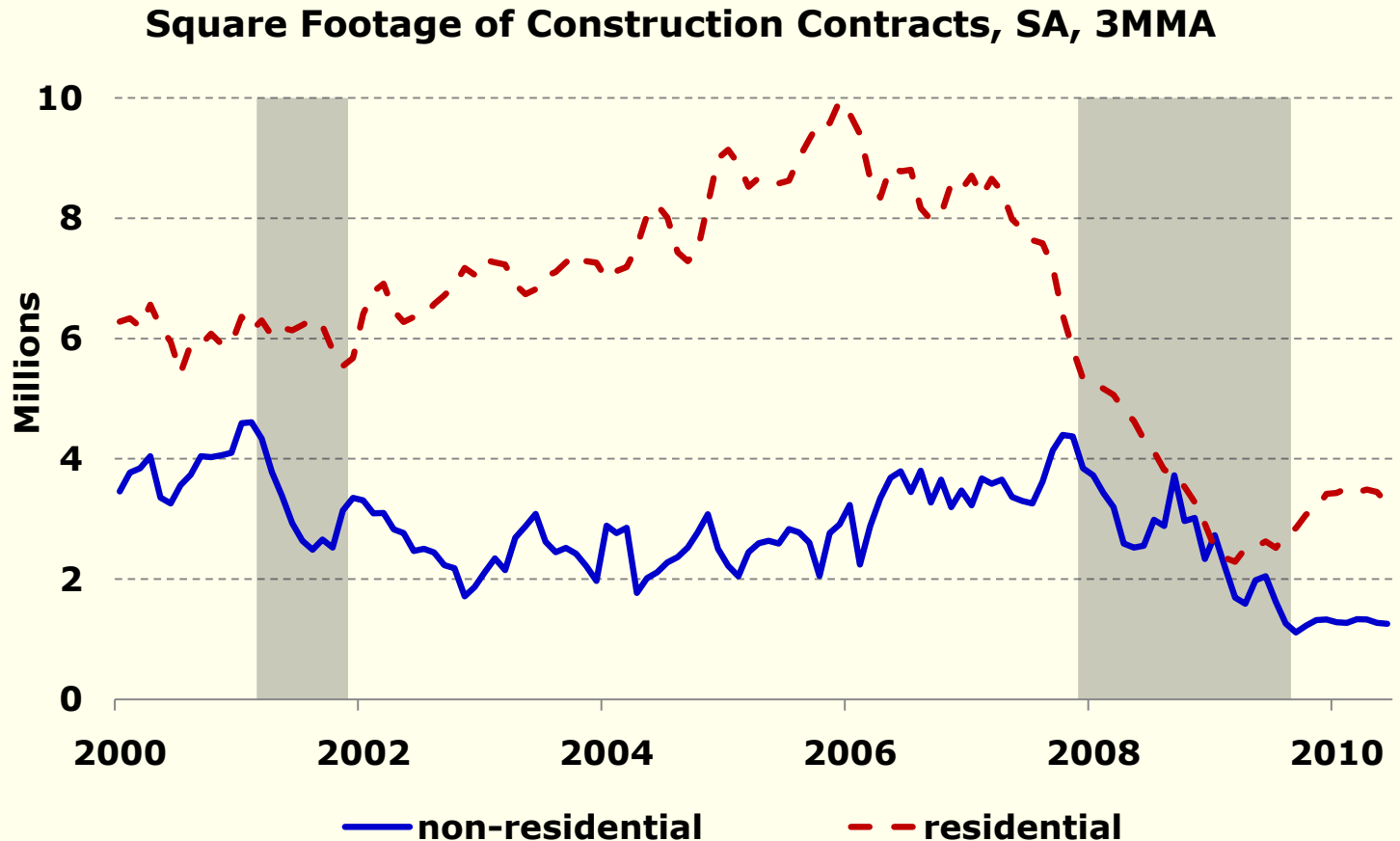


Source: McGraw-Hill Construction, data through June, 2010



# New construction in WA is no longer in free-fall, but the recovery will be weak

Residential square feet is up 55% since reaching a trough in Jan 2009



Source: McGraw Hill Construction, ERFC; data through June 2010

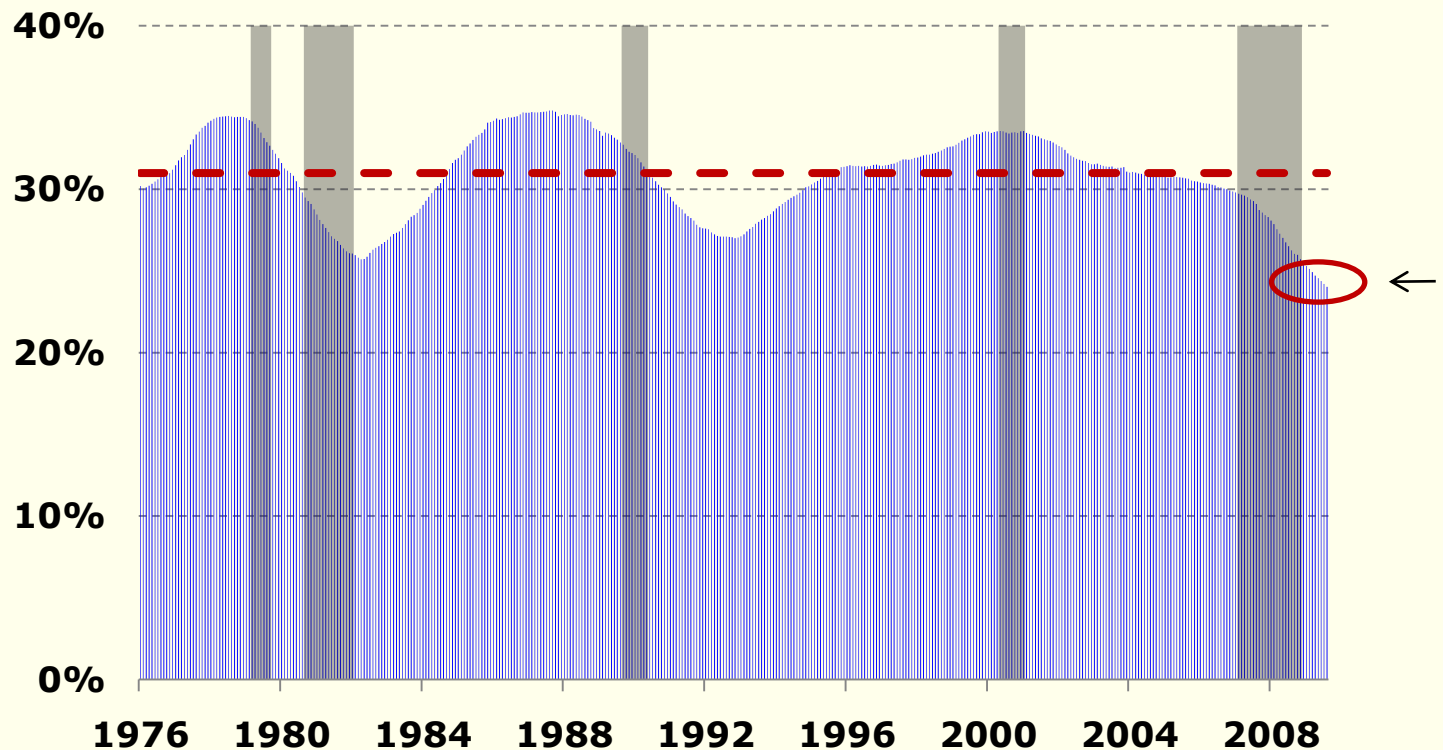
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# Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

**U.S. LMV Sales: Ratio of 36/120 Months**



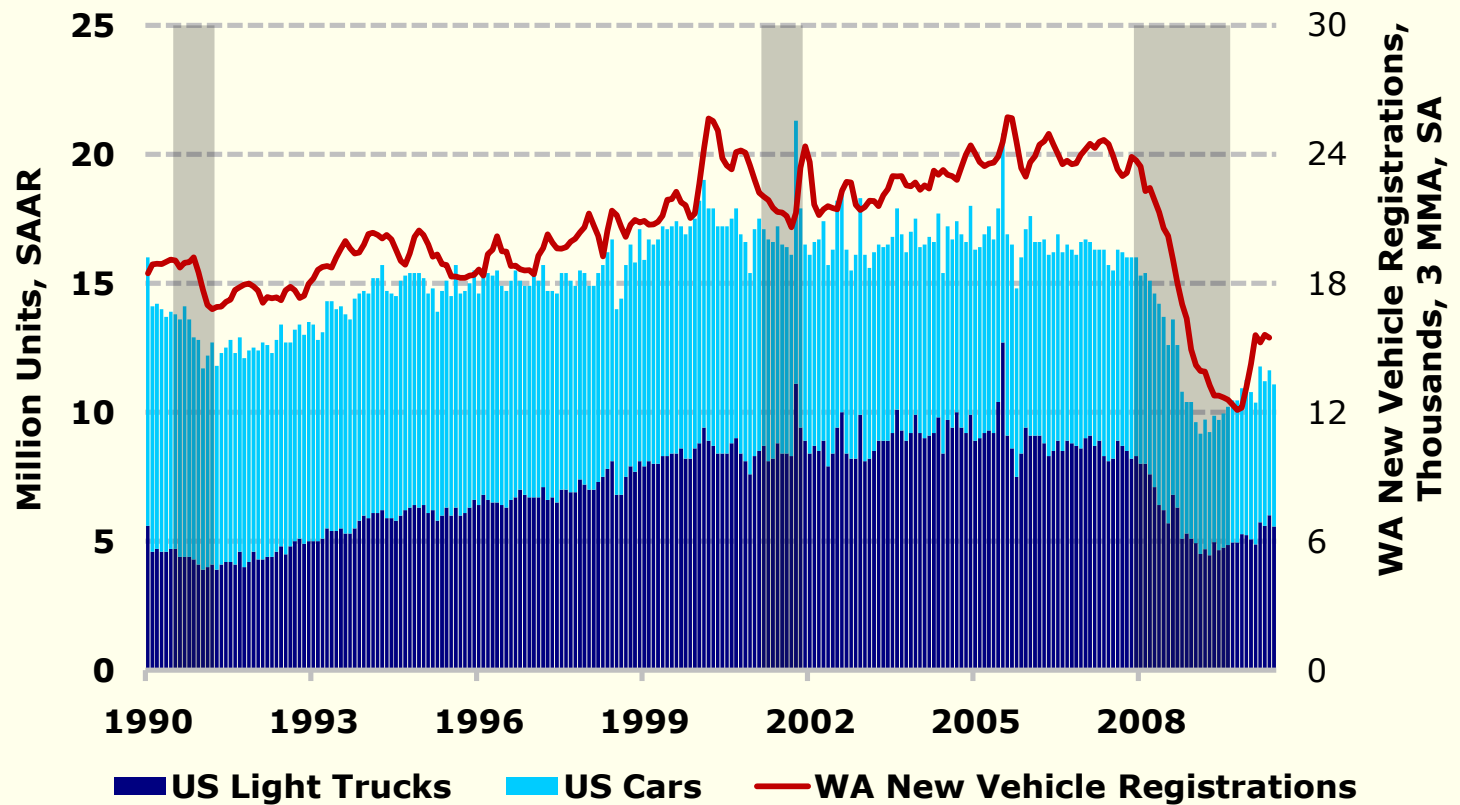
Source: Autodata Corporation, ERFC; data through June 2010



# Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

**Cash for Clunkers effect removed**



Source: Autodata Corporation, WA DOL; data through June 2010

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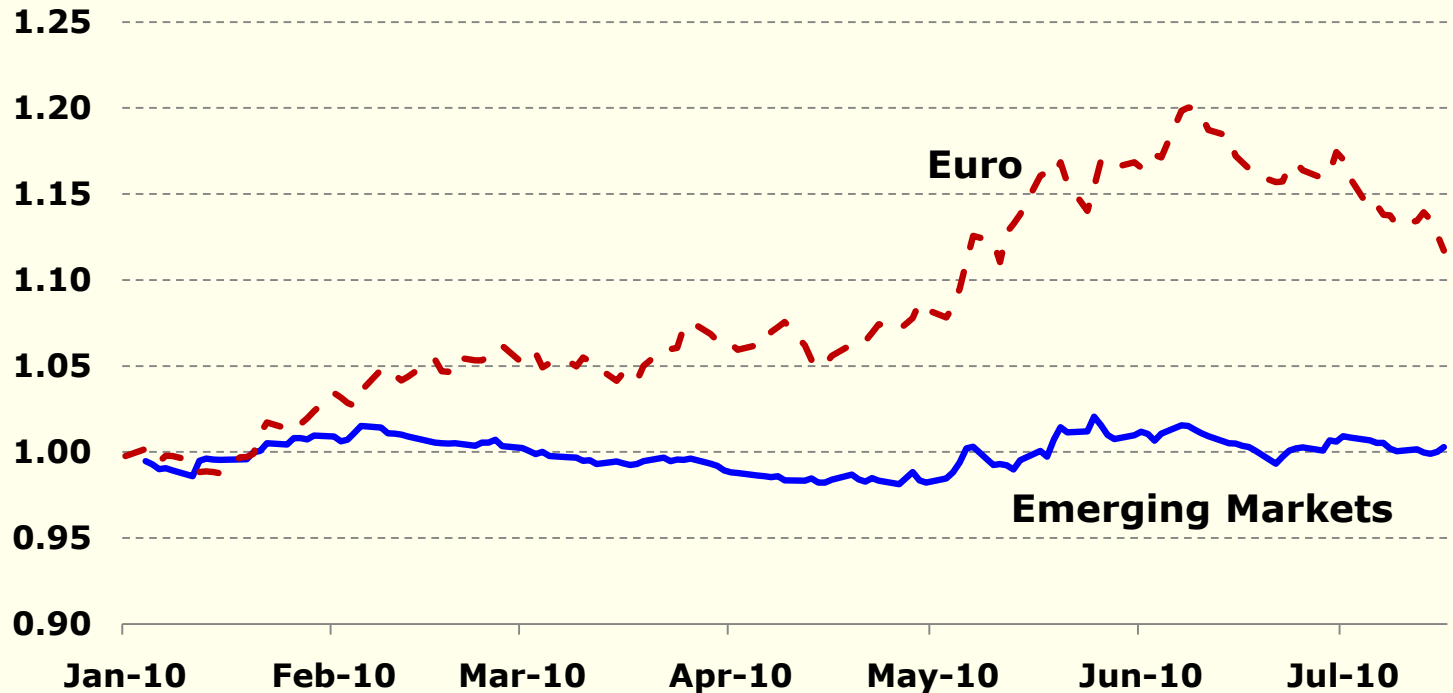
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# The USD has appreciated against the EUR this year, but not against emerging market currencies

## U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



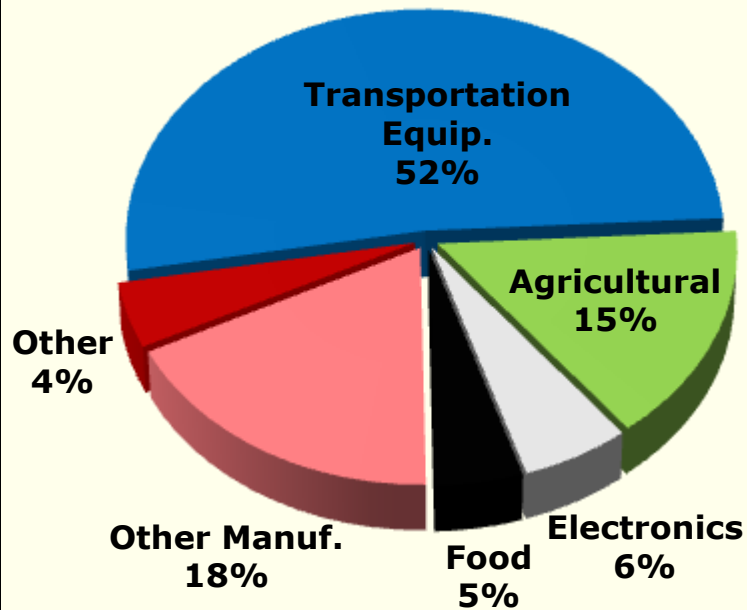
Source: US Federal Reserve Bank, ERFC; data through July 16, 2010



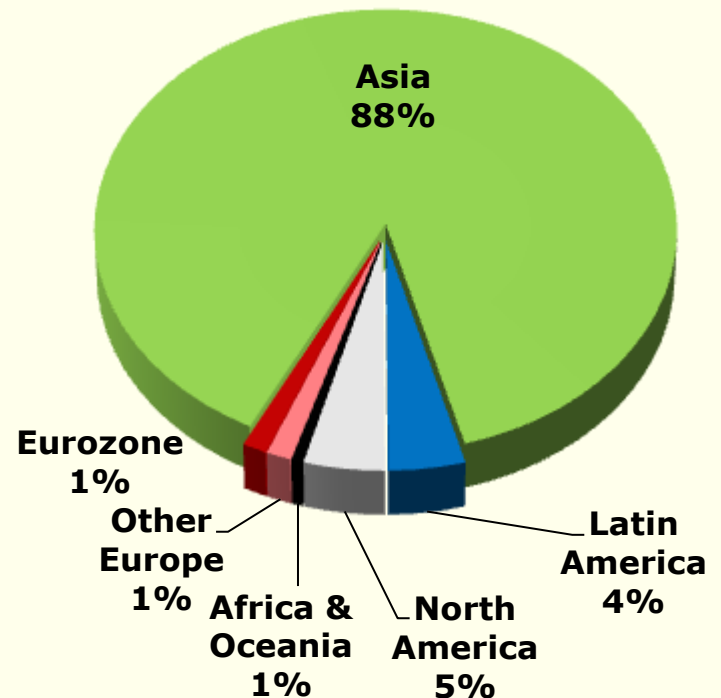
# Washington exports much more to Asia than Europe

2009

## By Industry



## Agriculture



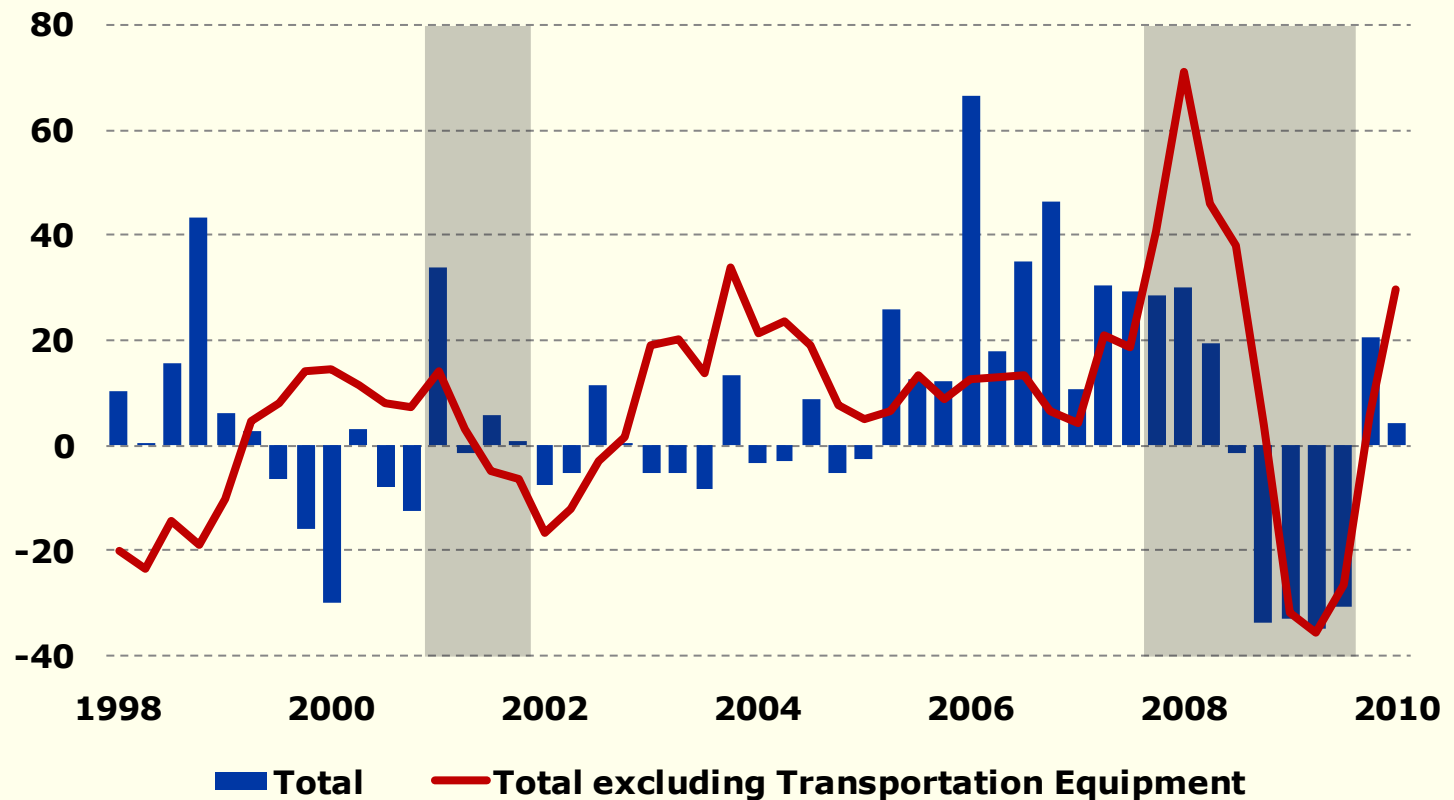
Source: Wiser Trade Data



# Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

**Exports**  
**Percent Change, year ago**



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Source: Wiser Trade Data; through 2010 Q1

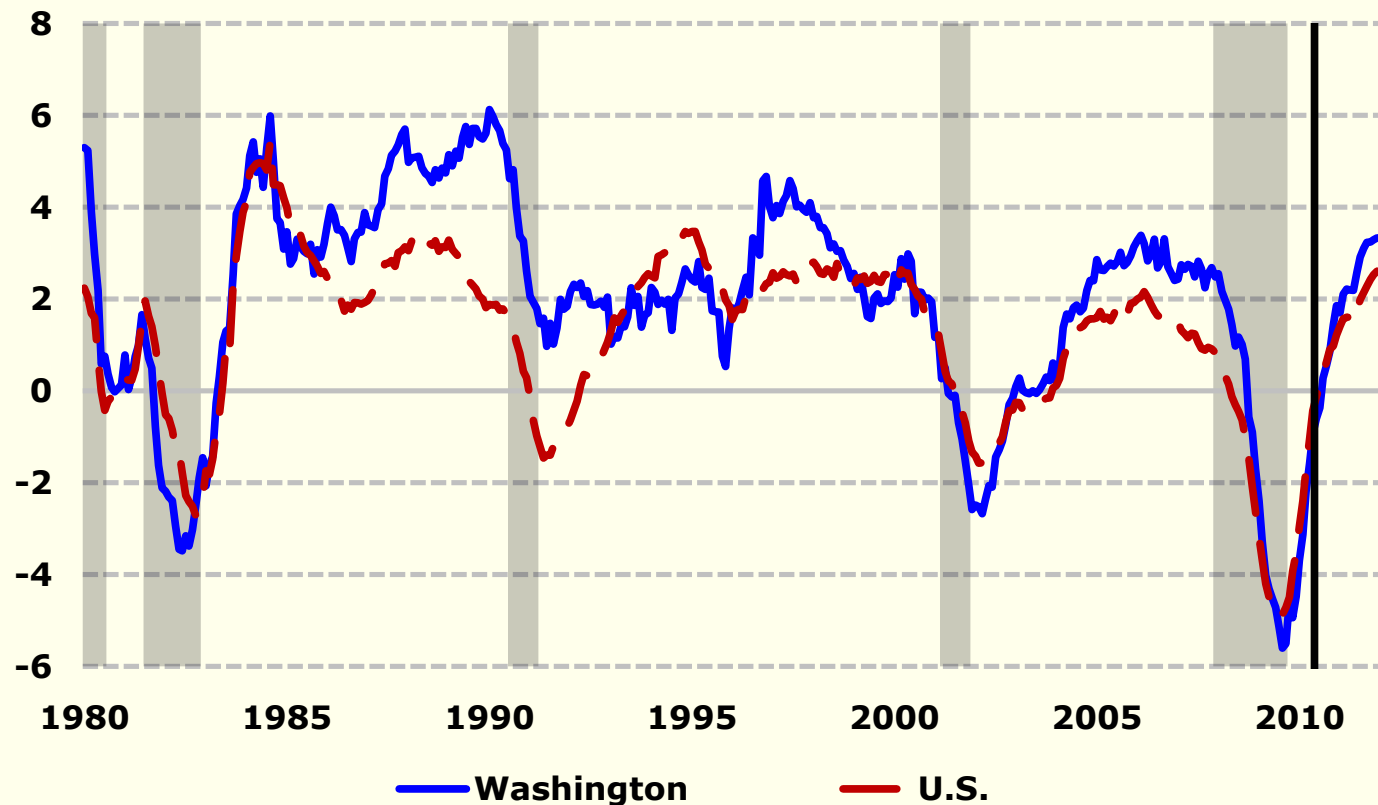
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# WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago

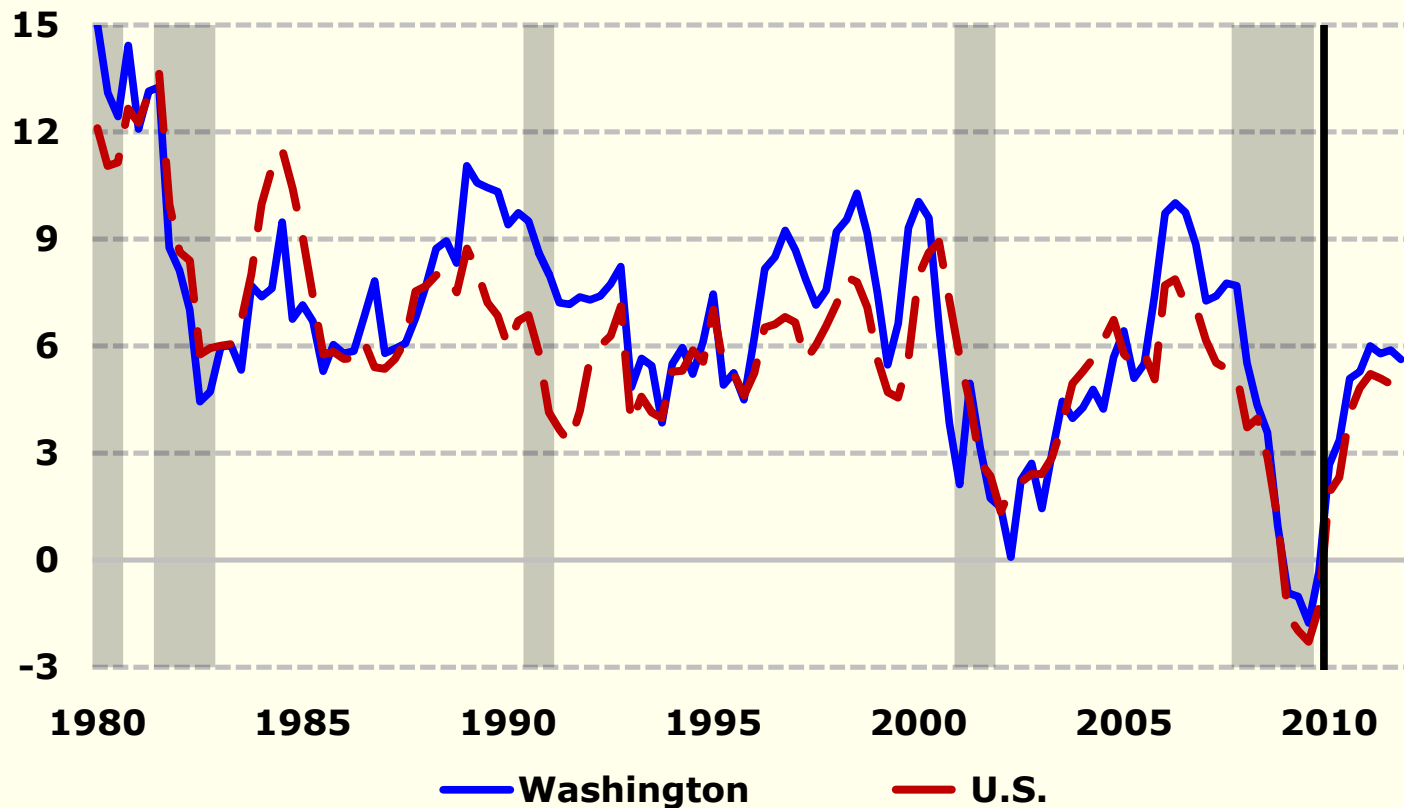


Source: ERFC June 2010 forecast; actual through June 2010



# The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



Source: ERFC June 2010 forecast; actual data through 2010Q1



# Are there reasons for optimism about July activity?

- Recoveries are not smooth events
- Non financial companies have \$1.8 trillion in reserves
- Y/Y same store sales up 4.2% for week ending June 17, before back to school sales
- Automotive incentives are back on
- U/I back-pay will stimulate spending
  - More relevant for U.S. than WA
- WA job openings up 18% Y/Y in June
- Anecdotal evidence
  - Discretionary spending
  - Visitors



# Questions



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Slide 27

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